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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 2766

INFO AMEMBASSY BAU DHABI

AMEMBASSY AMMAN

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

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C O N F I D E N T I A L SECTION 1 OF 3 CAIRO 2771

E.O. 11652: GDS

TAGS: EGEN EG

SUBJECT: THE EGYPTIAN ECONOMY IN EARLY 1975

FROM MAESTRONE

SUMMARY: WHILE LONG-TERM PROSPECTS FOR EGYPT'S
ECONOMIC GROWTH ARE STILL REASONABLE, SHORT-TERM OUTLOOK -
WITH FEW EXCEPTIONS - IS BLEAK. NEXT TWO OR THREE YEARS
LIKELY TO BE PERIOD OF CONSIDERABLE DISLOCATION AND RELATIVE
HARDSHIP AS GOE ATTEMPTS TO REVITALIZE, REORGANIZE AND REALIGN
FULL SPECTRUM OF ITS ECONOMIC AND COMMERCIAL ACTIVITIES UNDER
TRIPLE HANDICAP OF POLITICAL INSTABILITY THROUGHOUT ME GENERALLY,
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SEVERE FINANCIAL WEAKNESS AND ORGANIZATIONAL INEFFICIENCY.

ONLY FACTORS THAT COULD MARKEDLY ALTER PROSPECTS, ME PEACE AND/OR MAJOR OIL FIND, ARE NOT SOLELY WITHIN EGYPT'S CONTROL. SUCCESS OF SADAT'S EFFORTS TO DEVELOP ECONOMY ARE OF CONSIDERABLE SIGNIFICANCE TO US INTERESTS AND OBJECTIVES IN EGYPT AND ENTIRE REGION. US SUPPORT, BOTH GOVERNMENTAL AND PRIVATE, SHOULD BE MAINTAINED BOTH FOR ITS CONTRIBUTION AND EFFECT IT CAN HAVE ON OTHERS TO TAKE PART. END SUMMARY.

1. REALISTIC APPRAISAL OF EXISTING EGYPTIAN ECONOMIC SITUATION IS BOUND TO PRODUCE DISMAL LIST OF NEGATIVES, BUT LONG-RANGE POTENTIAL IS MORE ENCOURAGING. EGYPT HAS NUMBER OF ATTRIBUTES THAT BODE WELL FOR COUNTRY'S ECONOMIC FUTURE: LARGE DOMESTIC MARKET, SUBSTANTIAL LOW-COST LABOR POOL, GOOD GEOGRAPHIC LOCATION, DEVELOPED THROUGH DETERIORATING INFRASTRUCTURE, HIGH PERCENTAGE OF TRAINED AND SKILLED PERSONNEL, ETC. EGYPT SHOULD ACHIEVE SELF-SUSTAINING GROWTH LEVELS IN NEXT DECADE OR SO, ASSUMING MAINTENANCE OF APPROPRIATE INTERNAL AND EXTERNAL CONDITIONS, PARTICULARLY ATMOSPHERE CONDUCTIVE TO LARGE INFLOW OF CAPITAL WHICH WILL BE REQUIRED IN EARLY STAGES.

2. IN SHORT RUN, HOWEVER, EGYPTIAN ECONOMY AT BEGINNING OF 1975 PRESENTS DISCOURAGING PICTURE. IT CAN BE CHARACTERIZED BY EFFORTS AT CHANGE AND SHORTAGE OF RESOURCES, BOTH OF WHICH CREATE PROBLEMS IN ANY DEVELOPING COUNTRY. VIRTUALLY EVERY FACET OF NATION IS IN THROES OF MAJOR MODIFICATION OPERATIONALLY OR THEORETICALLY, OR BOTH. (MAJOR EXCEPTION IS AGRICULTURE, WHERE GOE HAS EVIDENTLY BEGUN TO SHIFT THINKING FROM HORIZONTAL TO VERTICAL DEVELOPMENT, BUT HAS NOT YET DECIDED EXACTLY HOW TO GO ABOUT IT.) AT SAME TIME, THERE ARE SEVERE LIMITATIONS ON RESOURCES REQUIRED. COMING MONTHS WILL PROBABLY BE PERIOD OF CONSIDERABLE AND PERHAPS SEVERE DIFFICULTY FOR GOE AS NUMBER OF CONVERGING FACTORS TAKE INCREASING EFFECT.

3. IN CONTEXT OF OVERALL INSTABILITY IN ME IN GENERAL, AS WELL AS DOMESTIC POLITICAL PRESSURES, SADAT'S EFFORT TO OVERCOME YEARS OF ALMOST TOTAL NEGLECT OF EGYPTIAN ECONOMY FACES NUMBER OF SERIOUS PROBLEMS, WHICH, WHEN ADDED TO ECONOMIC AND FINANCIAL OBSTACLES, MAKE TASK APPEAR EXTREMELY COMPLEX. AS 1975 GETS UNDER WAY, OUTLINES OF ANTICIPATED DIFFICULTIES BECOMING CLEARER. IN DISCUSSION WHICH FOLLOWS, VARIOUS ASPECTS

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OF SITUATION HAVE OF NECESSITY BEEN TREATED SEPARATELY; IN FACT THEY ARE INEXTRICABLY INTERRELATED AND COMPOUND EACH OTHER. FURTHER, WHILE SOME ARE CLEARLY MORE IMPORTANT THAN OTHERS, IT IS CUMULATIVE EFFECT THAT IS SIGNIFICANT.

I. SHORTAGES.

4. MOST SERIOUS HURDLE FACING EGYPT CONTINUES TO BE LACK OF

HARD CURRENCY CAUSED BY CHRONIC AND BURGEONING BALANCE OF PAYMENTS DEFICIT WHICH FOR PAST TEN YEARS HAS ACTED AS HIGHLY EFFECTIVE BRAKE ON DEVELOPMENT. DEFICIT ITSELF RESULTS FROM INTERACTION OF TWO VICIOUS CIRCLES. FIRST, PRIMACY OF WAR EFFORT AT EXPENSE OF EVERYTHING ELSE HAS SHARPLY LIMITED GROWTH OF ECONOMY AND AT SAME TIME CONSUMED MUCH OF RESERVES AND CURRENT EARNINGS. IMPERATIVES OF FOOD REQUIREMENTS (MOSTLY WHEAT AND FLOUR), WHICH CONSTITUTE ABOUT 40 PERCENT OF COMMODITY IMPORTS, HAVE KEPT GOE SHACKLED TO SUBSISTENCE TREADMILL, SPENDING SIGNIFICANT PORTION OF REMAINING AVAILABLE RESOURCES MERELY TO KEEP POPULATION ALIVE - AND CONSTANTLY GROWING. THIS PROBLEM IS EXACERBATED BY GOVERNMENTAL SUBSIDIES OF BASIC CONSUMER ITEMS, DESIGNED TO ISOLATE POPULATION FROM WORLD INFLATION, WHICH WILL COST GOE ABOUT LE 640 MILLION (LE 1 EQUALS \$2.55 AT OFFICIAL RATE, \$1.70 AT PARALLEL RATE) IN 1975. DROP IN WORLD WHEAT PRICES FROM HIGHS OF 1974 WILL ALLEVIATE PROBLEM SOMEWHAT THIS YEAR (EVEN THOUGH ONE MILLION TON AUSTRALIAN CONTRACT SIGNED LAST OCTOBER WAS AT HIGHER THAN CURRENT PRICES) BUT ANTICIPATED IMPORTS OF ABOUT 3 MILLION TONS WILL STILL COST SOMETHING OVER \$500 MILLION. PL 480 WHEAT (300,000 MT SO FAR IN FY 75) OBTAINED FROM US AND SMALLER QUANTITIES UNDER SIMILAR CONCESSIONARY RATES FROM OTHER WESTERN COUNTRIES HELP SOME, BUT NOT ENOUGH. WITH POPULATION OF ABOUT 37 MILLION AND GROWTH RATE OF 2.5 PERCENT OR MORE PRODUCING 825 THOUSAND NEW MOUTHS PER YEAR, GOE WILL BE FORCED TO IMPORT CONSTANTLY LARGER VOLUMES OF FOOD REGARDLESS OF WORLD PRICES FOR FORESEEABLE FUTURE.

5. SECOND, AVAILABLE FOREIGN EXCHANGE HAS BEEN INSUFFICIENT TO COVER SIMULTANEOUSLY WAR EFFORT, FOOD REQUIREMENTS, IMPORTS OF CAPITAL GOODS AND RAW MATERIALS REQUIRED IN ORDER TO MAINTAIN INDUSTRIAL PRODUCTION, MINIMAL UPKEEP OF INFRASTRUCTURE, AND GROWING DEBT BURDEN THAT WAS RESULT OF ALL THE ABOVE. INDUSTRY AND DEBT ARE ONLY POSTPONABLE ITEMS. CONSEQUENT LOSS

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OF ABILITY ATTRACT LONG-TERM FINANCING, WHICH WAS ALSO RELATED TO POLITICS, FORCED INCREASING RELIANCE ON MORE EXPENSIVE SHORT-TERM LOANS AND CREDITS, LEADING TO STEADILY WORSENING FINANCIAL SITUATION.

6. UNFAVORABLE SITUATION HAS BEEN MAGNIFIED BY GOE'S LONG OVERDUE DECISION TO FOCUS GREATER ATTENTION ON ECONOMIC ASPECTS OF EGYPT'S FUTURE. THIS HAS RESULTED IN DRAMATIC UPSURGE SINCE END 1973 IN NON-FOOD IMPORTS NEEDED FOR RECONSTRUCTION EFFORT THROUGHOUT COUNTRY, PARTICULARLY IN WAR-DESTROYED SUEZ CANAL REGION, AND ALL-IMPORTANT RENOVATION AND FULL UTILIZATION OF EXISTING INDUSTRY AND INFRASTRUCTURE. VAST TRADE DEFICIT HAS BUILT UP, FINANCED MOSTLY THROUGH SHORT-TERM CREDITS AND BANKING FACILITIES WHICH ARE BEGINNING TO FALL DUE. OBSERVERS AGREE THAT LOANS OF APPROXIMATELY \$2 BILLION WILL HAVE TO BE COVERED IN COMING FEW

MONTHS IF EGYPT IS TO PRESERVE HER REPUTATION IN BANKING CIRCLES,
ONE OF VERY FEW ASSETS LEFT FINANCIALLY. EXPECTED TRADE DEFICIT
IN 1975 (SEE BELOW), PLUS ESTIMATED LONG-TERM INDEBTEDNESS OF
OVER \$2 BILLION (EXCLUSIVE OF MILITARY DEBTS OF PERHAPS ANOTHER
\$2 BILLION) MAKE PROBLEM MORE SEVERE.

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INFO AMEMBASSY ABU DHABI

AMEMBASSY AMMAN

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

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7. GOE MAY HAVE MADE SERIOUS MISCALCULATIO OF READINESS AND
ABILITY OF OTHERS TO COME FORWARD WITH OFFERS OF CASH ASSISTANCE.
(REFLECTION OF CONTINUING FAILURE TO RECOGNIZE EXTENT TO WHICH
EGYPT IS ON HER OWN ECONOMICALLY IS CALCULATED TRADE DEFICIT DUR-
ING 1975 INTERIM PLAN OF OVER LE 1.4 BILLION, SUPPOSEDLY TO BE
COVERED TO MAJOR EXTENT BY "HELP FROM FRIENDS". OF ALMOST \$6
BILLION IN ASSISTANCE THAT HAS BEEN OFFERED TO EGYPT SINCE OCTOBER
WAR (\$3.8 BILLION FROM ARABS), RELATIVELY SMALL SHARE OF TOTAL

IS AVAILABLE AS BALANCE OF PAYMENTS-TYPE ASSISTANCE. (CAIRO A-23 CARRIES A FULLER DISCUSSION OF THIS ISSUE.) THIS HAS LEFT EGYPT FACING SERIOUS LIQUIDITY CRISIS, UNLESS RELIEF IS GRANTED BY CORRESPONDENT BANKS - PRINCIPAL SOURCE OF SHORT-TERM FUNDS. PARADOXICALLY, MAJOR ASSET IN THIS REGARD IS GROWING AWARENESS
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AMONG BANKERS OF EXTENT TO WHICH THEY HAVE AS A GROUP BECOME COMMITTED TO MAINTENANCE OF EGYPT'S SOLVENCY. NATIONAL BANK OF EGYPT, WHICH HANDLES ALMOST ALL CORRESPONDENT ACTIVITIES, REPORTS CONSIDERABLE SUCCESS IN OBTAINING ROLL-OVERS AS WELL AS MORE LIMITED, BUT STILL SIGNIFICANT, SUCCESS IN MOVING SOME BANKS FROM 180 DAY INTO 12 AND 18-MONTH CREDITS.

8. RELATED TO QUESTION OF MISCALCULATION ON HELP FROM ABROAD IS THUS-FAR POOR RESULT OF EFFORTS TO ATTRACT INVESTMENTS. TIDAL WAVE OF PROSPECTING BUSINESSMEN IN 1974 LEFT IMPRESSION LARGE NUMBERS OF MAJOR INVESTMENTS WERE IMMINENT, WHEN IN FACT LITTLE OF CONCRETE NATURE HAS ACTUALLY OCCURRED. NORMAL TIME-LAG, AMPLIFIED BY HESITATIONS OVER STABILITY IN AREA, HAS ALSO BEEN AFFECTED BY RELATIVE INABILITY OF GOE ORGANIZATIONS TO HANDLE PROPOSALS (SEE BELOW).

9. EGYPT SUFFERS FROM EXTREME SHORTAGE OF INSTITUTIONAL AND ORGANIZATIONAL CAPACITY TO IDENTIFY POTENTIALLY VIABLE PROJECTS AND PREPARE BASIC FEASIBILITY STUDIES AS FOUNDATION FOR ATTRACTING INVESTORS FROM WESTERN AND ARAB COUNTRIES. NEED FOR SUCH STUDY CAPABILITY IS PRESSING, AND WILL HAVE TO BE PROVIDED FROM OUTSIDE, E.G. AID/IBRD FINANCING, IF INDUSTRIAL DEVELOPMENT IS TO GET UNDERWAY IN NEAR FUTURE.

10. OTHER SOURCE OF INCOME, EXPORTS, IS IN EQUALLY POOR SITUATION. COTTON CONSTITUTES ALMOST HALF OF TOTAL VALUE, AND WORLD-WIDE PRICE DROP WILL HAVE NEGATIVE EFFECT ON BOP, PARTICULARLY SINCE IN RECENT TIMES GOE HAS SUCCEEDED IN SHIFTING GREATER SHARE OF COTTON TO CONVERTIBLE CURRENCY SALES VICE BILATERAL AGREEMENTS. AT PRESENT, GOE IS HOLDING BACK IT'S COTTON CROP IN HOPES OF A PRICE RISE, BUT WILL EVENTUALLY BE FORCED TO SELL WHATEVER THE PRICE. POSSIBILITIES FOR INCREASING PRODUCTION OF COTTON, OR ANY AGRICULTURAL CROP, ARE LIMITED BY LACK OF LAND. (ACREAGE IN 1975 WILL BE REDUCED FROM 1.5 TO 1.3 MILLION FEDDANS (ROUGHLY EQUAL ACRES) IN ORDER TO PROVIDE MORE FOOD.) SHIFT TO USE OF ARTIFICIAL FIBERS IN MARKET COUNTRIES MAY WELL CONTINUE TO KEEP PRICE DOWN. INDUSTRIAL PRODUCTION LIKE EXPORTS, AS RESULT CUMULATIVE EFFECTS OF WAR EFFORT AND GENERAL INEFFICIENCY OF PRICING AND OPERATIONAL MECHANISMS, WILL PROBABLY NOT MAKE MEANINGFUL ADDITIONAL CONTRIBUTION TO CASH INFLOWS FOR SOME TIME. OTHER MAJOR INCOME EARNER, TOURISM,
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HAS ENORMOUS POTENTIAL BUT SHORTAGE OF HOTEL SPACE PUTS AN EFFECTIVE LIMIT ON NUMBER OF VISITORS.

11. DEVELOPMENT AND EXPANSION OF PARALLEL MARKET HAS PERMITTED GOE TO TAP RESERVOIR OF PRIVATELY-OWNED HARD CURRENCY WITH CONSIDERABLE SUCCESS AND HAS ENCOURAGED NON-TRADITIONAL EXPORTS. PREMIUM HAS REPORTEDLY ENCOURAGED INCREASED REMITTANCES FROM OVERSEAS WORKERS. BOTH PRIVATE AND PUBLIC SECTORS CAN NOW BUY FOREIGN EXCHANGE THROUGH PARALLEL MARKET UNDER CERTAIN CONDITIONS AND WITH PAYMENT OF 55 PERCENT SURCHARGE. RESULT HAS BEEN INCREASED AVAILABILITIES OF BOTH CAPITAL AND CONSUMER GOODS ON MARKET, MOSTLY LATTER, WHICH ALSO HAS BENEFICIAL EFFECT, IN CASE OF CONSUMER AND LUXURY ITEMS, OF ABSORBING SOME OF EXCESS DOMESTIC LIQUIDITY GENERATED BY MONETARY POLICIES FOLLOWED OVER RECENT YEARS AND AT SAME TIME SATISFYING PORTION OF DEMAND FOR SUCH GOODS. THERE HAS ALSO BEEN AN UNDESIRABLE EFFECT; PRESENCE LUXURY GOODS IN STORES GIVES IMPRESSION OF BLACKMARKETS, PROFITEERING AND POOR ALLOCATION OF NATION'S RESOURCES TO MAJORITY OF POPULACE NOT FAMILIAR WITH PURPOSE AND FUNCTIONS OF PARALLEL MARKET.

II. EFFORTS AT CHANGE - ATTITUDINAL AND ACTUAL

12. SADAT'S DECISION TO SEEK PEACE HAS COINCIDED WITH HIS PROGRAM OF ECONOMIC DEVELOPMENT AND ECONOMIC, SOCIAL AND POLITICAL LIBERALIZATION. DOWN-PLAY OF EXTERNAL THREAT AND CONSTANT READINESS FOR WAR HAS PERMITTED POPULATION TO SHIFT SOME ATTENTION TO MISERABLE STATE OF ECONOMY, RELATIVELY UNNOTICED AND/OR MORE ACCEPTABLE DURING TOTAL CONCENTRATION ON MATTERS MILITARY. AT SAME TIME, NEW-FOUND FREEDOM HAS PERMITTED VOICES TO BE RAISED IN PROTEST ON SUBJECTS PREVIOUSLY UNMENTIONABLE; SHORTAGES OF FOOD AND OTHER SUPPLIES, PRICE INCREASES, LACK OF TRANSPORTATION FACILITIES, QUALITY OF DRINKING WATER, ERRORS OF GOVERNMENTAL MANAGEMENT, RUMORS OF CORRUPTION, ETC. RESULT HAS BEEN FERMENT WHICH HAS INCREASED PRESSURE ON REGIME TO IMPROVE MATTERS ON A BROAD RANGE, AND QUICKLY, AT PRECISELY A TIME WHEN THERE ARE GROSSLY INADEQUATE RESOURCES FOR TASK.

13. GOE'S TENDENCY TO EXAGGERATE INTERNAL STEPS BEING TAKEN AND EXTERNAL HELP RECEIVED HAS NOT HELPED. EUPHORIA THAT SWEEPED COUNTRY IN MID-74 WITH ANNOUNCEMENTS OF VAST AMOUNTS OF MONEY

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EXPECTED MOMENTARILY, FROM US, IRAN ARABS AND OTHERS, HAS BEEN REPLACED BY RESENTMENT OVER SEVERE SHORTAGES OF BASIC COMMODITIES AND FOODS THAT OCCURRED IN FALL OF YEAR, AND LACK OF NOTICEABLE

IMPROVEMENT IN SITUATION GENERALLY SINCE THEN. GENERALLY WIDES-
SPREAD DISSATISFACTION WAS REFLECTED IN RELATIVELY MINOR RIOT ON
JANUARY 1. GOE'S CONCERN OVER THESE DEVELOPMENTS HAS LED TO NUMBER
OF PALLIATIVE MEASURES INVOLVING SALARIES AND SAVINGS, AND
CONSIDERABLE PUBLICITY ON DISCUSSIONS AND DECISIONS AS TO HOW TO
COPE WITH PROBLEMS OF THE MASSES. NUMBER OF SIGNIFICANT STEPS HAVE
ACTUALLY BEEN TAKEN, RANGING FROM INCREASED EXPENDITURES FOR SUPPLY
COMMODITIES AND PROVISION OF NEW BUSES TO REORGANIZATION OF GOVERN-
MENTAL ENTITIES CONCERNED WITH PROCURING AND DISTRIBUTION GOODS AND
DRAFTING OF LEGISLATION TO PUNISH THOSE WHO BREAK LAWS
DEALING WITH THESE MATTERS, BUT FOR MOST PART THEY ARE NOT
LIKELY TO HAVE MARKED EFFECT IN NEAR TERM.

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14. ADDITIONAL CAUSE OF UNEASE HAS BEEN IMPLICATIONS OF

OPEN DOOR POLICY. CONCEPT OF PRIVATE SECTOR ACTIVITY HAS ALWAYS BEEN PRESENT IN EGYPT, BUT ARAB SOCIALISM CONCEIVED OF IT AS BASICALLY EGYPTIAN, OCCUPYING RELATIVELY MINOR AND FULLY CONTROLLED SPHERE WITHIN HEAVILY PUBLIC SECTOR-ORIENTED (ABOUT 90 PERCENT) ECONOMY. INVITATION TO AND ENCOURAGEMENT OF FOREIGN PRIVATE INVESTMENT, REDOLENT WITH MEMORIES OF FOREIGN EXPLOITATION, HAS CREATED CONCERN IN MORE THAN ONE SEGMENT OF BODY POLITIC, E.G. PUBLIC SECTOR EMPLOYEES, WHITE COLLAR AS WELL AS BLUE, WORRIED OVER THEIR JOB FUTURE, AND ELEMENTS TO LEFT OF CENTER IN POLITICAL SPECTRUM, SUSPICIOUS OF FOREIGN CAPITAL. AS RESULT, RESISTANCE TO INFLUX OF INVESTMENT EXISTS IN RANKS OF STUDENTS, WORKERS, ARAB SOCIALIST UNION, PEOPLE'S ASSEMBLY, CONFIDENTIAL

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ETC., AND HAS GROWN. GOE HAS CONTAINED PROBLEM POLITICALLY, BUT EFFECTS HAVE NONETHELESS BEEN DISCERNIBLE IN HESITANT AND AMBIGUOUS WORDING OF LAWS AND REGULATIONS COVERING SUBJECT, AND ALSO PERHAPS IN LACK OF SPEED WITH WHICH PROGRAM IS MOVING, E.G. FACT THAT FOREIGN BANKS ARE STILL NOT IN OPERATION 8 MONTHS AFTER PRIME MINISTER'S ANNOUNCEMENT THAT THEY HAD BEEN APPROVED.

15. ANOTHER FACTOR IS EGYPTIAN BUREAUCRACY, WHICH, WITHOUT OTHER NUMEROUS PROBLEMS FACING ECONOMY, WOULD BE AN EFFECTIVE DETERRENT TO RAPID, RATIONAL DEVELOPMENT EFFORT. ESTABLISHMENT OF PRIORITIES, FIXING OF RESPONSIBILITIES (PARTICULARLY ACCEPTANCE OF LATTER), INSTITUTION OF FOLLOW-UP AND CORRECTIVE ACTIONS, ARE ALMOST LOST ARTS. DECISIONS ARE MADE ONLY AT THE TOP, AND ARE OFTEN SWALLOWED IN MORASS OF BUREAUCRACY. SIGNIFICANCE OF THIS PROBLEM IS DIFFICULT TO IGNORE, IN PARTICULAR AS IT APPLIES TO EFFORTS TO GET FOREIGN INVESTMENTS.

16. TOTAL BLAME CANNOT BE PLACED ON EGYPTIAN SIDE, BUT IMPORTANCE OF ATTRACTING VOLUME OF INDUSTRIAL INVESTMENTS NEEDED IF ECONOMY IS NOT BE ENGULFED BY POPULATION IN COMING YEARS MAKES IT IMPERATIVE TO PROVIDE POTENTIAL INVESTORS WITH NECESSARY FACILITATIVE ASSISTANCE AND INFORMATION, ABOVE ALL ANSWERS TO QUESTIONS ON ACCEPTABILITY OF A PROPOSAL. WITH CONSIDERABLE ATTENTION STILL ON ISRAELI WAR/PEACE QUESTION, GOE HAS BEEN UNABLE TO CONCENTRATE ON CORRECTING BUREAUCRATIC FAILINGS BUT IS CLEARLY AWARE OF NEED FOR SUBSTANTIAL AND SUBSTANTIVE CHANGES.

17. ON A HIGHER LEVEL, NEW COURSE CHOSEN BY GOE WILL REQUIRE ABANDONMENT OF CERTAIN WELL-ESTABLISHED PRACTICES AND INSTITUTION OF NEW AND UNFAMILIAR ONES. EGYPT IS ON RIGHT PATH, BUT WILL CERTAINLY ENCOUNTER DIFFICULTIES AS EFFORTS ARE MADE TO: DECENTRALIZE DECISION-MAKING, IMPROVE ALLOCATION OF RESOURCES, RESTRUCTURE BANKING SYSTEM, ENCOURAGE DOMESTIC SAVINGS, REORGANIZE AGRICULTURE, REFORM WAGE AND PRICE PROGRAMS, AND ALL OTHER STEPS REQUIRED IF DEVELOPMENT EFFORT IS TO PROCEED RAPIDLY.

III. POSSIBLE OFFSETS

18. MUCH OF POLITICAL PRSSURE ON SADAT WOULD BE TEMPORARILY REMOVED BY SUCCESSFUL SECOND-STAGE DISENGAGEMENT. BREATHING ROOM THUS GAINED WOULD PROVIDE BETTER OPPORTUNITY TO CONCENTRATE ON CONFIDENTIAL

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ARRAY OF PROBLEMS IN ECONOMIC AREAS. IMPROVEMENT IN PERCEIVED STABILITY IN AREA MIGHT ALSO TEND TO REDUCE HESITANCY OVER INVESTMENTS. AT SAME TIME, THERE MAY BE ANOTHER WAVE OF RISING EXPECTATIONS, AS WELL AS POSSIBILITY THAT LESSENING OF CRISIS MIGHT PRODUCE DROP IN ASSISTANCE FROM ABROAD.

19. ASSISTANCE FROM ARAB STATES, POTENTIALLY A MAJOR FACTOR IN EGYPT'S FUTURE, HAS HEAVY POLITICAL OVERTONES AND IS UNPREDICTABLE. SHULD THEY CHOSE TO DO SO, SAUDI ARABIA AND KUWAIT COULD ALONE PROVIDE FINANCIAL SUPPORT REQUIRED TO KEEP EGYPT AFLOAT UNTIL THINGS GET STARTED.

20. MAJOR OIL DISCOVERY WOULD MAKE A REAL DIFFERENCE. NEARLY 30 COMPANIES ARE PRESENTLY ENGAGED IN VARIOUS STAGES OF EXPLORATION, HAVING SIGNED UP TO SPEND SOMETHIN& OVER \$600 MILLION FOR THE PRIVILEGE (ONLY ABOUT 15 PERCENT OF TOTAL REPRESENTS EXPENDITURES IN EGYPT) AND ALL OF THEM ARE ENTHUSIASTIC OVER PROSPECTS. ONE FAILY SIGNIFICANT STRIKE HAS ALREADY BEEN MADE IN RAMADAN FIELD, SEISMIC INDICATIONS ELSEWHERE HAVE BEEN ENCOURAGING, AND GOE IS WORKING ON CONSERVATIVE ESTIMATE OF PRODUCTION OF ONE MILLION BARRELS PERDAY BY 1981.

IV. IMPLICATIONS FOR THE US

21. MUCH OF WHAT US AND FREE WORLD WANT IN ME IS DEPENDENT UPON STABLE AND VIABLE EGYPT, AN OBJECTIVE IN ITSELF, BUT OF GREATER SIGNIFICANCE IN CONTEXT OF ROLE EGYPT CAN PLAY IN POLITICAL AND ECONOMIC ORIENTATION OF ENTIRE REGION. SUCCESS OF EFFORTS MADE BY SADAT AND THOSE WHO COME AFTER HIM, TO STEER EGYPT DOWN PATH OF LESSENNED CONFRONTATION AND ECONOMIC DEVELOPMENT WILL DEPEND TO A LARGE EXTENT ON WHAT HAPPENS TO ECONOMY IN NEXT TWO YEARS OR SO, AS GROUNDWORK IS LAID FOR SELF-SUSTAINING GROWTH. AMERICAN ABILITY TO CONTRIBUTE DIRECTLY TO ENDEAVOR IS LIMITED BY BOTH DOMESTIC POLITICAL AND ECONOMIC CONSTRAINTS, BUT OUR CATALYTIC INPUTS CAN BE A SIGNIFICANT FACTOR IN ENCOURAGING AND MAINTAINING SLOWLY DEVELOPING MOMENTUM THAT HAS EVOLVED OVER PAST YEAR. OUR OBJECTIVE SHOULD BE TO HELP EGYPT ACCELERATE THIS MOMENTUM AND TO DIRECT OUR ASSISTANCE TO MOST NEEDED PROJECTS, PARTICULARLY AIMED AT REHABILITATING COUNTRY'S INFRASTRUCTURE OVER FORTHCOMING DIFFICULT PERIOD. EGYPT HAS THE POTENTIAL TO MAKE IT, BUT NOT RIGHT AWAY.

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Review Transfer Date:
Review Withdrawn Fields: n/a
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